



**City of Morrill
Morrill, Kansas**

**Report on the Audit of the Basic Financial Statements
As of and for the Year Ended
December 31, 2016**

City of Morrill
Morrill, Kansas
For the Year Ended
December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Roger Price
Members of the City Council
City of Morrill, Kansas
Morrill, Kansas

We have audited the accompanying fund summary statements of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Morrill, Kansas as of and for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide (KMAAG)* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide (KMAAG)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Municipality to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

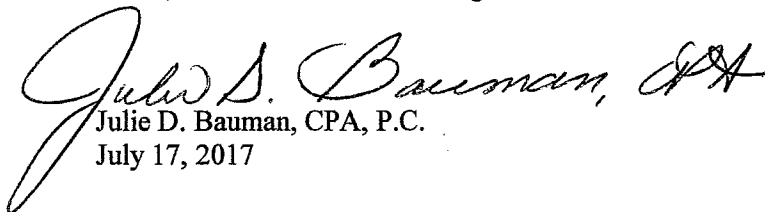
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Morrill, Kansas as of December 31, 2016, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the aggregate cash and unencumbered cash balances of the City of Morrill, Kansas, as of December 31, 2016, and the aggregate cash receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts and expenditures (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.


Julie D. Bauman, CPA, P.C.
July 17, 2017

BASIC FINANCIAL STATEMENTS

City of Morrill, Kansas
Summary Statement of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2016

	Beginning Cash <u>Balance</u>	<u>Cash Receipts</u>	Cash <u>Disbursements</u>	Ending Cash <u>Balance</u>
General Operating	\$ 21,700	\$ 65,473	\$ 48,532	\$ 38,641
Special Revenue Funds:				
Special Street	3,995	16,023	791	19,227
Morrill Fire Department	54,535	19,860	20,269	54,126
Employee Benefits	656	23,396	19,586	4,466
Capital Outlay Fund	36,273	22,482	15,482	43,273
Enterprise Funds:				
Water Utility Funds:				
Water Utility	24,992	56,689	56,295	25,386
Water Deposits	485	200	352	333
Electric Utility Fund:				
Electric Utility	109,244	211,707	207,918	113,033
Electric Deposit	950	300	705	545
Sewer Utility Fund	39,002	18,700	17,683	40,019
Trash Collection	8,077	10,499	10,476	8,100
Agency Funds:				
Petty Cash	<u>210</u>	<u>1,000</u>	<u>1,010</u>	<u>200</u>
Total Reporting Entity	<u>\$ 300,119</u>	<u>\$ 446,329</u>	<u>\$ 399,099</u>	<u>\$ 347,349</u>
Transfers		<u>-</u>	<u>-</u>	
Net Receipts and Disbursements		<u>\$ 446,329</u>	<u>\$ 399,099</u>	
Composition of Cash:				
Cash at Morrill & Janes Bank				\$ 256,478
Certificates of Deposits				90,821
Cash on Hand				50
				<u>\$ 347,349</u>

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Summary of Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	Cash <u>Disbursements</u>	<u>Budget</u>	Variance Favorable <u>(Unfavorable)</u>
General Fund	\$ 48,532	\$ 95,000	\$ 46,468
Special Revenue Funds:			
Special Street	791	25,000	24,209
Morrill Fire Department	20,269	23,000	2,731
Employee Benefits	19,586	22,000	2,414
Enterprise Funds:			
Water Utility	56,295	70,000	13,705
Electric Utility	207,918	235,000	27,082
Sewer Fund	17,683	65,000	47,317
Trash Fund	10,476	14,000	3,524
Total Budget Funds	<u>\$ 381,550</u>	<u>\$ 549,000</u>	<u>\$ 167,450</u>

See notes to financial statements.

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

City of Morrill, Kansas
General Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Ad Valorem	\$ 19,170	\$ 20,156	\$ 19,570	\$ 586
Local Compensating Use Tax	2,979	3,505	3,000	505
Redemptions	369	797	600	197
Delinquent Tax	-	23	75	(52)
Motor Vehicle Tax	2,834	3,344	3,374	(30)
Recreational Vehicle Tax	124	135	285	(150)
Local Retail Sales Tax	16,025	15,283	15,840	(557)
KPL Franchise Fees	4,773	3,894	6,000	(2,106)
Late Charges	13,554	3,126	16,000	(12,874)
Dog Tags	15	13	-	13
Miscellaneous	(1,657)	781	-	781
Insurance proceeds	3,361	3,725	2,000	1,725
Embarq Franchise	100	100	-	100
Parks and Recreation	1,180	1,740	500	1,240
Federal/State Withholding Tax	9,000	8,851	10,000	(1,149)
Total Cash Receipts	71,827	65,473	77,244	(11,771)
CASH DISBURSEMENTS:				
Administration	17,705	12,932	24,200	11,268
Police Department	252	652	600	(52)
Fire Department	7,000	7,000	7,000	-
Parks Department	5,631	1,224	7,000	5,776
Street Lighting Department	1,220	1,179	1,200	21
Highway Department	18,756	9,292	30,000	20,708
Cemetery Department	4,500	4,500	4,500	-
Federal Withholding	6,856	6,706	8,000	1,294
Kansas Withholding	2,090	2,047	2,500	453
Transfer	3,000	3,000	10,000	7,000
Total Cash Disbursements	67,010	48,532	95,000	46,468
Receipts over (under) disbursements	4,817	16,941		
CASH, BEGINNING BALANCE	16,883	21,700		
CASH, ENDING BALANCE	\$ 21,700	38,641		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Fire Department Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
City Support	\$ 11,126	16,489	20,000	(3,511)
Kansas Gas Service	1,466	1,279	-	1,279
Support Other	9,580	2,092	5,000	(2,908)
Total Cash Receipts	<u>\$ 22,172</u>	<u>\$ 19,860</u>	<u>\$ 25,000</u>	<u>\$ (5,140)</u>
CASH DISBURSEMENTS:				
Vehicle Expense	1,551	2,244	4,000	1,756
Mileage	1,780	1,605	1,000	(605)
Utilities	2,932	2,559	4,000	1,441
Equipment Maintenance	414	871	2,000	1,129
Miscellaneous	908	933	-	(933)
Building Maintenance	403	3,252	1,000	(2,252)
Supplies	726	215	5,000	4,785
Insurance	6,260	3,349	6,000	2,651
Capital Outlay	1,219	5,241	-	(5,241)
Total Cash Disbursements	<u>16,193</u>	<u>20,269</u>	<u>23,000</u>	<u>2,731</u>
Receipts over (under) disbursements	5,979	(409)		
CASH, BEGINNING BALANCE	<u>48,556</u>	<u>54,535</u>		
CASH, ENDING BALANCE	<u>\$ 54,535</u>	<u>\$ 54,126</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Special Street
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Special Street and Highway Tax	\$ 5,950	6,023	6,000	23
Transfers	-	10,000	12,000	(2,000)
Total Cash Receipts	<u>\$ 5,950</u>	<u>\$ 16,023</u>	<u>\$ 18,000</u>	<u>\$ (1,977)</u>
CASH DISBURSEMENTS:				
Street Materials	<u>10,957</u>	<u>791</u>	<u>25,000</u>	<u>24,209</u>
Total Cash Disbursements	<u>10,957</u>	<u>791</u>	<u>\$ 25,000</u>	<u>\$ 24,209</u>
Receipts over (under) disbursements	(5,007)	\$ 15,232		
CASH, BEGINNING BALANCE	<u>9,002</u>	<u>3,995</u>		
CASH, ENDING BALANCE	<u>\$ 3,995</u>	<u>\$ 19,227</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Employee Benefit
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Ad Valorem	\$ 7,499	\$ 7,377	\$ 7,550	\$ (173)
Deliquent Tax	-	9	-	9
Motor Vehicle Tax	1,461	1,356	50	1,306
Recreational Vehicle Tax	-	-	37	(37)
Employee Contributions	8,169	9,876	9,180	696
16/20M Vehicle Tax	-	-	86	(86)
KPERS	-	118	-	118
Redemption Distribution	182	(340)	1,000	(1,340)
Transfer	-	5,000	-	5,000
Total Cash Receipts	<u>\$ 17,311</u>	<u>\$ 23,396</u>	<u>\$ 17,903</u>	<u>\$ 5,493</u>
CASH DISBURSEMENTS:				
Social Security	10,006	9,844	11,500	1,656
Retirement	10,503	9,678	10,000	322
Unemployment	49	64	500	436
Miscellaneous	16	-	-	-
Total Cash Disbursements	<u>\$ 20,574</u>	<u>\$ 19,586</u>	<u>\$ 22,000</u>	<u>\$ 2,414</u>
Receipts over (under) disbursements	(3,263)	3,810		
CASH, BEGINNING BALANCE	<u>3,919</u>	<u>656</u>		
CASH, ENDING BALANCE	<u>\$ 656</u>	<u>\$ 4,466</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Water Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ending December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Water Sales	\$ 53,111	\$ 55,201	\$ 60,000	\$ (4,799)
Reconnect Fees	1,440	1,110	500	610
Miscellaneous	618	221	500	(279)
Water Protection Fees	134	157	500	(343)
Total Cash Receipts	<u>\$ 55,303</u>	<u>\$ 56,689</u>	<u>\$ 61,500</u>	<u>\$ (4,811)</u>
CASH DISBURSEMENTS:				
Water Purchased	20,071	21,753	22,000	247
Personnel Services	11,080	10,734	12,000	1,266
Contractual Services	5,231	4,340	8,000	3,660
Commodities	8,406	15,739	15,000	(739)
Transfer to Capital Outlay	3,000	3,000	6,000	3,000
Miscellaneous	1,908	729	-	(729)
Water Tower	-	-	7,000	7,000
Total Cash Disbursements	<u>49,696</u>	<u>56,295</u>	<u>70,000</u>	<u>13,705</u>
Receipts over (under) disbursements	5,607	394		
CASH, BEGINNING BALANCE	<u>19,385</u>	<u>24,992</u>		
CASH, ENDING BALANCE	<u>\$ 24,992</u>	<u>\$ 25,386</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Electric Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Sales	\$ 213,524	\$ 206,098	\$ 230,000	\$ (23,902)
Reconnect Fees	450	60	400	(340)
Material Sales	356	4,421	2,000	2,421
Miscellaneous	540	1,128	-	1,128
Total Cash Receipts	\$ 214,870	\$ 211,707	\$ 232,400	\$ (20,693)
CASH DISBURSEMENTS:				
Capital Outlay-Construction of Lines	-	-	10,000	10,000
Capital Outlay - Equipment	-	-	9,500	9,500
Electrical Energy Purchased	99,518	105,699	117,000	11,301
Personnel Services	29,314	32,157	25,000	(7,157)
Contractural Services	1,058	1,083	6,000	4,917
Commodities	18,927	15,819	24,000	8,181
Insurance	29,947	29,623	23,000	(6,623)
Sales Tax	10,801	5,537	17,000	11,463
Transfer to Capital Outlay	3,000	18,000	3,500	(14,500)
Total Cash Disbursements	192,565	\$ 207,918	\$ 235,000	\$ 27,082
Receipts over (under) disbursements	22,305	3,789		
CASH, BEGINNING BALANCE	86,939	109,244		
CASH, ENDING BALANCE	\$ 109,244	\$ 113,033		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Sewer Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Services	\$ 19,118	\$ 18,700	\$ 10,000	\$ 8,700
Transfer In	-	-	21,000	-
Total Cash Receipts	<u>\$ 19,118</u>	<u>\$ 18,700</u>	<u>\$ 10,000</u>	<u>\$ 8,700</u>
CASH DISBURSEMENTS:				
Capital Outlay	\$ -	\$ -	\$ 20,000	20,000
Personnel Services	13,952	9,974	10,000	26
Contractual Services	6,277	4,676	15,000	10,324
Commodities	2,543	33	17,000	16,967
Transfer to Capital Outlay	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	-
Total Cash Disbursements	<u>25,772</u>	<u>17,683</u>	<u>\$ 65,000</u>	<u>\$ 47,317</u>
Receipts over (under) disbursements	(6,654)	1,017		
CASH, BEGINNING BALANCE	<u>45,656</u>	<u>39,002</u>		
CASH, ENDING BALANCE	<u>\$ 39,002</u>	<u>\$ 40,019</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Trash Collection
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2016

	2015 Actual	2016 Actual	2016 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
User Fees	\$ 10,691	\$ 10,499	\$ 14,000	\$ (3,501)
Total Cash Receipts	<u>\$ 10,691</u>	<u>\$ 10,499</u>	<u>\$ 14,000</u>	<u>\$ (3,501)</u>
CASH DISBURSEMENTS:				
Contractural Services	<u>10,476</u>	<u>10,476</u>	<u>14,000</u>	<u>3,524</u>
Total Cash Disbursements	<u>10,476</u>	<u>10,476</u>	<u>\$ 14,000</u>	<u>\$ 3,524</u>
Receipts over (under) disbursements	215	23		
CASH, BEGINNING BALANCE	<u>7,862</u>	<u>8,077</u>		
CASH, ENDING BALANCE	<u>\$ 8,077</u>	<u>\$ 8,100</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Capital Outlay Fund
Schedule of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2016

	<u>2015 Actual</u>	<u>2016 Actual</u>
CASH RECEIPTS:		
Transfer from General Fund	\$ 3,000	\$ 3,000
Transfer from Water Fund	3,000	3,000
Transfer from Sewer Fund	3,000	3,000
Transfer from Electric Fund	3,000	3,000
Transfer from Fire Fund	1,219	-
FEMA Grant-Misc	<u>22,088</u>	<u>10,482</u>
 Total Cash Receipts	 <u>\$ 35,307</u>	 <u>\$ 22,482</u>
 CASH DISBURSEMENTS:		
Fire Gear	<u>23,307</u>	<u>15,482</u>
 Total Cash Disbursements	 <u>23,307</u>	 <u>15,482</u>
 Receipts over (under) disbursements	 12,000	 7,000
 CASH, BEGINNING BALANCE	 <u>24,273</u>	 <u>36,273</u>
 CASH, ENDING BALANCE	 <u><u>\$ 36,273</u></u>	 <u><u>\$ 43,273</u></u>

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Trust and Agency Funds
Schedule of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2016

	<u>Petty Cash</u>
CASH RECEIPTS:	
Cash Receipts	<u>\$ 1,000</u>
Total Cash Receipts	<u>1,000</u>
CASH DISBURSEMENTS:	
Disbursements	<u>1,010</u>
Total Cash Disbursements	<u>1,010</u>
CASH, BEGINNING BALANCE	<u>210</u>
CASH, ENDING BALANCE	<u><u>\$ 200</u></u>

The accompanying notes are an integral part of these financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2016

Note 1 – Summary of Significant Accounting Policies

A. Basis of Presentation – Fund Accounting -

The accounts of the City of Morrill, Kansas are organized on the basis of funds, each of which is considered a separate accounting entity.

The following types of funds comprise the financial activities of the City for 2016.

Governmental funds:

General fund – to account for all unrestricted resources except those required to be accounted for in other funds or account groups.

Special revenue funds – to account for the proceeds of specific revenue sources or to finance specified activities as required by law or administrative regulation.

Capital project funds – to account for major capital expenditures not financed by other funds.

Proprietary funds:

Enterprise funds – to account for operations that are financed and operated in a manner similar to business enterprises-where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges-or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary funds:

Agency funds – to account for assets held by the governmental entity as trustee or agent for others.

B. Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2016

C. Departure from Generally Accepted Accounting Principles

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

D. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2016.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2016

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds.

Spending in funds, which are not subject to the legal annual operating budget requirement, is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

E. Reporting Entity

This report includes all of the services provided by the City of Morrill to residents and businesses within its boundaries and includes all of its component units.

Note 2 – Deposits

At year-end, the carrying amount of the City's deposits was \$256,278 and the bank balance was \$256,393. The difference between the carrying amount and the bank balance is December interest earned. The bank balance is covered by FDIC insurance and collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name and insurance.

Composition of Cash and Investments

	<u>Amount</u>
Morrill and Janes Bank:	
Checking	\$ 256,278
Petty Cash	200
Cash on Hand	50
Total	<u>\$ 256,528</u>
 Certificate of Deposit	 <u>\$ 90,821</u>
Total Cash and Investments	<u>\$ 347,349</u>

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2016

Note 3 – Taxes

Property Taxes – The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser annually determines assessed valuations and the County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county.

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the following year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. One-half of the property taxes is due December 20, prior to the fiscal year for which they are budgeted, and the second half is due the following May 10.

Motor Vehicle Taxes – Since 1981 most motor vehicles became subject to a special tax paid at the time of registration instead of the traditional property tax. In 1995, the legislature enacted a five-year phase down in the assessment rate on motor vehicles for 30% to 20% of market value.

In 2016, the City received the following from county and state taxes:

	General <u>Fund</u>	Street <u>Fund</u>	Employee Benefit <u>Fund</u>
Property Taxes	\$ 20,156	\$ -	\$ 7,378
Motor Vehicle Taxes	3,344	-	1,356
Sales and Use Taxes	12,536	-	-
Other Vehicle Taxes	135	-	-
State Highway Aid	<u>-</u>	<u>6,023</u>	<u>-</u>
	<u>\$ 36,171</u>	<u>\$ 6,023</u>	<u>\$ 8,734</u>

The assessed valuation in 2016 was \$1,409,584, which was used to determine the mill levy for 2016. The mill levy was 19.297 for 2016.

Note 4 – Utilities

The City provides water, sewer, electric and solid waste services. The City reads the meters at the 18th of each month and mails their utility bills on the 20th day of each month for the previous month's service. The utility bills are due the tenth day of the month. Payments received after this date, are subjected to a late charge of 10.0% on the unpaid bill. If bills are not paid by the tenth of the following month a disconnect notice is sent and service will be disconnected on the twenty-first.

The City requires that, at the time of making application for utility service, the property owner or customer shall make a cash deposit in the amount of \$50 for water service and \$100 for electric service, set by the governing body to secure payment of accrued bills or bills due on discontinuance of service.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
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Note 4 – Utilities (continued)

The amount due to the City for utility services as of December 31, 2016 was \$24,942.00, of which \$7,009.00 is related to the December billings (due January 10, 2017). The amount due to customers for utility deposits as of December 31, 2016 was water \$625, electric \$1,100.

Utility Rates as of December 31, 2016 are as follows:

Water Rates:

Minimum charge	\$26.10 for residents inside city limits includes 1,000 gallons
Minimum charge	\$30.72 for residents outside city limits includes 1,000 gallons
Next 1,000 gallons	\$4.64 per 1,000 gallons, inside the City limits
	\$4.64 per 1,000 gallons, outside the City limits

Sewer Rates:

Flat Rate	\$15.00 for residential
Flat Rate	\$15.00 for commercial

Solid Waste:

Monthly charge	\$ 9.25 for residential
Monthly charge	\$18.40 for commercial

Electric Rates:

Monthly charge	\$ 9.00 for residential
Monthly charge	\$11.00 for commercial
All customers	\$.15 per KWHR plus Energy Cost Adjustment

Note 5 – Pension Plan

Plan Description. The City of Morrill participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. Seq. Kansas law establishes and amends benefit provisions. KPERS issues a publically available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member

These notes are an integral part of the accompanying financial statements.

City of Morrill
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contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1 and KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for Death and Disability Program) and the statutory contribution rate was 9.48% for the fiscal year ended December 31, 2016. Contributions to the pension plan from the City of Morrill were \$5,760 for the year ended December 31, 2016.

Net Pension Liability

At December 31, 2016, the City of Morrill's proportionate share of the collective net pension liability reported by KPERS was \$57,132. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The City of Morrill's proportion of the net pension liability was based on the ratio of the contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

Note 6 – Compliance with Kansas Law

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the City. There were no apparent statutory violations during the year ended December 2016.

Note 7 – Water Purchase Contract

The City purchases its water from the City of Sabetha, Kansas at a rate of \$3.33 per 1,000 gallons the original contract is dated August 29, 1991 and is subject to increases after each audit of the Sabetha water utility. The City sold 4,904,400 gallons of water to customers and purchased 5,752,500 gallons from the City of Sabetha, the water loss percentage was 15% in 2016.

City of Morrill
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Note 8 – Waste Management Contract

The City contracts with Larry's Services for refuse collection at a rate of \$9.25 per residential customer and \$18.40 per commercial customer. The City bills for the services and receives a 3% discount for the billing processing. All bulk item pickups are billed directly by Larry's Services to the customer. The contract was initiated on September 1, 2003 and is extended on an annual basis.

Note 9 – Electrical Service Contract

The City purchases power from Westar Energy at a rate of \$.1712 plus variable charges per kilowatt hour. The contract is effective August 2, 2010 and has a term of twenty years. The City sold 1,122,362 kilowatt hours to customers and purchased 1,287,608 kilowatt hours from Westar Energy, the electricity loss percentage was 13% in 2016.

Note 10 – Compensated Absences

The City vacation and sick policies are as follows:

Vacation Leave:

Years of <u>Service</u>	Number of days received on <u>anniversary date</u>
0-1	5
1-10	10

After ten years of service the employee earns one extra day of vacation for each year over ten years the maximum accrual is 120 hours.

Sick Leave:

Employees earn 40 hours of sick time per year and can be carried over for two additional years. The maximum accumulated sick leave shall not exceed 120 hours.

Note 11 – Infrastructure

The City has elected not to comply with Government Accounting Standards Board 34 (GASB 34), which requires Cities to account for their infrastructure.

Note 12 – Concentrations

The City is engaged in the sale of water, trash, electric and sewer services to customers located in the City. The City grants credit to those customers and requires no collateral but does require a service deposit.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
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Note 13 – Risk Management

The City has various risks including general liabilities, employees injured while working, automobile, etc. The City insures these risks through various insurance policies.

Note 14 – Subsequent Events

Management has evaluated subsequent events through July 17, 2017, the date the financial statements were available to be issued.

